Liberty Tax, Inc.
Form 10-Q
November 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended July 31, 2018

OR

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 001-35588

Liberty Tax, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-3561876
(State of incorporation)	(IRS employer identification no.)

1716 Corporate Landing Parkway
Virginia Beach, Virginia 23454
(Address of principal executive offices)
(757) 493-8855
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes o No ý

Indicate by check mark whether the registrant has submitted electronically Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes o No ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o
			o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The number of shares outstanding of the registrant’s Class A common stock as of November 27, 2018 was 14,036,684 shares.

LIBERTY TAX, INC.

Form 10-Q for the Quarterly Period Ended July 31, 2018

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1
FINANCIAL STATEMENTS

1

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
July 31, 2018, April 30, 2018 and July 31, 2017
(In thousands, except share data)

Assets	July 31, 2018 (unaudited)	April 30, 2018	July 31, 2017 (unaudited)
Current assets:			
Cash and cash equivalents	$ 6,186	$ 18,522	$ 6,254
Receivables:			
Accounts receivable	41,224	52,517	43,225
Notes receivable - current	29,402	24,295	33,493
Interest receivable, net of uncollectible amounts	2,023	1,526	2,554
Allowance for doubtful accounts - current	(11,917)	(11,522)	(8,745)
Total current receivables, net	60,732	66,816	70,527
Assets held for sale	5,231	8,941	14,678
Income taxes receivable	4,989	—	47
Other current assets	3,201	5,429	4,717
Total current assets	80,339	99,708	96,223
Property, equipment, and software, net	37,091	38,636	39,744
Notes receivable, non-current	9,882	6,554	18,202
Allowance for doubtful accounts, non-current	(1,642)	(965)	(1,880)
Total non-current notes receivables, net	8,240	5,589	16,322
Goodwill	7,997	8,640	7,620
Other intangible assets, net	22,765	22,837	21,902
Deferred income taxes	1,272	343	173
Other assets	2,056	2,250	2,814
Total assets	$ 159,760	$ 178,003	$ 184,798
Liabilities and Stockholders’ Equity			
Current liabilities:			
Current installments of long-term obligations	$ 16,923	$ 18,113	$ 5,202
Accounts payable and accrued expenses	21,213	14,521	13,958
Due to Area Developers (ADs)	7,186	17,906	9,168
Income taxes payable	—	4,511	208
Revolving credit facility	12,590	—	—
Deferred revenue - current	4,018	2,021	2,854
Total current liabilities	61,930	57,072	31,390
Long-term obligations, excluding current installments, net	1,895	2,270	17,816
Revolving credit facility	—	—	20,611
Deferred revenue and other - non-current	7,870	4,692	5,466
Deferred income tax liability	919	1,397	3,585
Long-term income taxes payable	1,070	1,070	—
Total liabilities	73,684	66,501	78,868
Commitments and contingencies			
Stockholders’ equity:			
Special voting preferred stock, $0.01 par value per share, 0, 10 and 10 shares authorized, issued and outstanding, respectively	—	—	—

Class A common stock, $0.01 par value per share, 21,200,000 shares authorized, 14,024,111, 12,823,020 and 12,682,550 shares issued and outstanding, respectively	140	128	127
Class B common stock, $0.01 par value per share, 1,000,000 shares authorized, 0, 200,000 and 200,000 shares issued and outstanding, respectively	—	2	2
Exchangeable shares, $0.01 par value per share, 1,000,000 shares authorized, 0, 1,000,000 and 1,000,000 shares issued and outstanding, respectively	—	10	10
Additional paid-in capital	11,769	11,570	8,925
Accumulated other comprehensive loss, net of taxes	(1,539)	(1,347)	(1,065)
Retained earnings	75,706	101,139	97,931
Total stockholders' equity	86,076	111,502	105,930
Total liabilities and stockholders' equity	$ 159,760	$ 178,003	$ 184,798

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
Three Months Ended July 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands, except share count and per share data)

	Three Months Ended July 31,	
	2018	2017
Revenue:		
Franchise fees	$557	$ 71
Area Developer fees	1,028	1,068
Royalties and advertising fees	1,562	1,689
Financial products	579	582
Interest income	1,656	2,297
Assisted tax preparation fees, net of discounts	1,518	1,639
Electronic filing fees	28	—
Other revenues	235	842
Total revenues	7,163	8,188
Operating expenses:		
Employee compensation and benefits	10,769	9,991
Selling, general, and administrative expenses	11,304	9,202
Area Developer expense	304	372
Advertising expense	1,685	2,376
Depreciation, amortization, and impairment charges	3,194	2,196
Restructuring expense	8,266	—
Total operating expenses	35,522	24,137
Loss from operations	(28,359)	(15,949)
Other income (expense):		
Foreign currency transaction gain	2	110
Interest expense	(530)	(281)
Loss before income taxes	(28,887)	(16,120)
Income tax benefit	(9,516)	(6,362)
Net loss	(19,371)	(9,758)
Net loss per share of common stock:		
Basic and diluted	$(1.48)	$ (0.76)
Weighted-average shares outstanding basic and diluted	13,078,091	12,882,550
Dividends declared per share of common stock and common stock equivalents	$0.16	$ 0.16

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss
Three Months Ended July 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Three Months Ended July 31,	
	2018	2017
Net loss	$(19,371)	$(9,758)
Unrealized gain (loss) on interest rate swap agreement, net of taxes of $17 and $0, respectively	10	(15)
Foreign currency translation adjustment	(202)	1,034
Comprehensive loss	$(19,563)	$(8,739)

See accompanying notes to condensed consolidated financial statements.

4

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
Three Months Ended July 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Three Months Ended July 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(19,371)	$(9,758)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	1,939	1,408
Depreciation, amortization, and impairment charges	3,194	2,196
Amortization of deferred financing costs	102	—
Loss on disposal of fixed and intangible assets	4,083	—
Stock-based compensation expense	205	554
Gain (loss) on bargain purchases and sales of Company-owned offices	55	(536)
Equity in loss of affiliate	(8)	—
Deferred tax expense	45	(34)
Changes in accrued income taxes	(9,489)	(6,187)
Changes in other assets and liabilities	5,587	(2,167)
Net cash used in operating activities	(13,658)	(14,524)
Cash flows from investing activities:		
Issuance of operating loans to franchisees and ADs	(8,850)	(11,275)
Payments received on operating loans to franchisees	1,390	1,545
Purchases of AD rights, Company-owned offices and acquired customer lists	(58)	(352)
Proceeds from sale of Company-owned offices and AD rights	—	76
Purchases of property, equipment and software	(769)	(1,110)
Net cash used in investing activities	(8,287)	(11,116)
Cash flows from financing activities:		
Dividends paid	—	(2,339)
Repayment of long-term obligations	(2,901)	(3,283)
Borrowings under revolving credit facility	12,717	20,706
Repayments under revolving credit facility	(127)	(95)
Cash paid for taxes on exercises/vesting of stock-based compensation	(6)	—
Net cash provided by financing activities	9,683	14,989
Effect of exchange rate changes on cash, net	(74)	478
Net decrease in cash and cash equivalents	(12,336)	(10,173)
Cash and cash equivalents at beginning of period	18,522	16,427
Cash and cash equivalents at end of period	$6,186	$6,254

See accompanying notes to condensed consolidated financial statements.

5

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
Three Months Ended July 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Three Months Ended July 31,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest of $3 and $145, respectively	$522	$281
Cash paid for taxes, net of refunds	(16)	(137)
Accrued capitalized software costs included in accounts payable	117	54
During the three months ended July 31, 2018 and 2017, the Company acquired certain assets from ADs, franchisees, and third parties as follows:		
Fair value of assets purchased	$1,840	$3,664
Receivables applied, net of amounts written off, due ADs and related deferred revenue	(289)	(2,714)
Bargain purchase gains	(191)	(322)
Long-term obligations and accounts payable issued to seller	(1,302)	(276)
Cash paid to ADs, franchisees and third parties	$58	$352
During the three months ended July 31, 2018 and 2017, the Company sold certain assets to ADs and franchisees as follows:		
Book value of assets sold	$1,163	$24
Gain on sale - revenue deferred	—	18
Gain (loss) on sale - gain (loss) recognized	(72)	37
Notes received	(312)	(3)
Restructuring	(779)	—
Cash received from ADs and franchisees	$—	$76

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

July 31, 2018 and 2017

(1) Organization and Significant Accounting Policies

Description of Business
Liberty Tax, Inc. (the "Company"), a Delaware corporation, is a holding company engaged through its subsidiaries as a franchisor and, to a lesser degree, an operator of a system of income tax preparation offices located in the United States of America (the "U.S.") and Canada. The Company's principal operations are conducted through JTH Tax, Inc. (d/b/a Liberty Tax Service), the Company's largest subsidiary. Through this system of income tax preparation offices, the Company also facilitates refund-based tax settlement financial products, such as Refund Transfer products in the U.S. and personal income tax Refund Discounting products in Canada. The Company also offers online tax preparation services. In fiscal 2015, the Company changed its name from JTH Holding, Inc. to Liberty Tax, Inc.

The Company provides a substantial amount of lending to its franchisees and area developers ("ADs"). The Company allows franchisees and ADs to defer a portion of the franchise fee and AD fee, which are paid over time. The Company also offers its franchisees working capital loans to assist in funding their operations between tax seasons.

The Company’s operating revenues are seasonal in nature, with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

Unless the context requires otherwise, the terms "Liberty Tax," "Liberty Tax Service," "we," the "Company," "us," and "our" refer to Liberty Tax, Inc. and its consolidated subsidiaries.

Basis of Presentation
The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Assets and liabilities of the Company's Canadian operations have been translated into U.S. dollars using the exchange rate in effect at the end of the period. Revenues and expenses have been translated using the average exchange rates in effect each month of the period. Foreign exchange transaction gains and losses are recognized when incurred. The Company reclassifies to accounts payable checks issued in excess of funds available and reports them as cash flow from operating activities. The Company consolidates any entities in which it has a controlling interest, the usual condition of which is ownership of a majority voting interest. The Company also considers for consolidation an entity in which the Company has certain interests where a controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The Company does not possess any ownership interests in franchisee entities; however, the Company may provide financial support to franchisee entities. Because the Company's franchise arrangements provide franchisee entities the power to direct the activities that most significantly impact their economic performance, the Company does not consider itself the primary beneficiary of any such entity that might be a VIE. Based on the results of management's analysis of potential VIEs, the Company has not consolidated any franchisee entities. The Company's maximum exposure to loss resulting from involvement with potential VIEs is attributable to accounts and notes receivables and future lease payments due from franchisees. When the Company does not have a controlling interest in an entity but has the ability to exert significant influence over the entity, the Company applies the equity method of accounting. Intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required only in annual financial statements. The consolidated balance sheet data as of April 30, 2018 was derived from the Company's April 30, 2018 Annual Report on Form 10-K filed on October 5, 2018, as amended by Amendment No. 1 to the Annual Report on Form 10-K filed on October 10, 2018.

In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated financial statements in accordance with GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its April 30, 2018 Annual Report on Form 10-K filed on October 5, 2018, as amended by Amendment No. 1 to the Annual Report on Form 10-K filed on October 10, 2018.

Office Count

As a seasonal business, the Company works throughout the off season to open new offices, and, at the same time, some of our franchisees will choose not to reopen for the next season. Some of these decisions are not made until January of each year, and the Company expects to report office count information for the quarter ended January 31, 2019 once all offices have been opened.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these condensed consolidated financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates.

Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)." This update will replace existing lease guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently finalizing its implementation plan and evaluating the impact of the new pronouncement on its consolidated financial statements. The Company expects the adoption of this pronouncement to result in a material increase in the assets and liabilities on its consolidated balance sheets, but does not expect it to have a material impact on its consolidated statements of income.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)", which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The update is intended to reduce the existing diversity in practice and is effective for the Company beginning with its first quarterly filing in fiscal year 2019. The Company adopted the update for all periods beginning on or after May 1, 2018.

In June 2016, the FASB issued ASU No. 2016-13, "Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which changes how companies will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard replaces the "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost (which generally will result in the earlier recognition of allowances for losses) and requires companies to record allowances for available-for-sale debt securities, rather than reduce the carrying amount. In addition, companies will have to disclose significantly more information, including information used to track credit quality by year of origination, for most financing receivables. The ASU should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the standard is effective. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. The ASU is effective for the Company beginning in the first quarter of fiscal year 2021. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business", which clarifies the definition of a business with the objection of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The ASU is effective for the Company beginning in the first quarter of fiscal year 2019. The Company adopted the update for all periods beginning on or after May 1, 2018 and it does not have an impact on the Company's current accounting for business combinations.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This new standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The standard will be effective for the Company in the first quarter of fiscal year 2021. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Codification ("ASC") 606, “Revenues from Contracts with Customers” which amends the guidance in ASC 605, “Revenue Recognition.” The core principle of this new standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. ASC 606 also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of this new standard did not materially impact the Company’s recognition of revenues generated from the following:

- Assisted tax preparation fees, net of discounts, which are recorded at the time the return is filed. The related discounts are recorded as reductions to revenues.
- Financial products, which are recorded at the time the return is filed. A change to certain financial products offered in the third quarter will be disclosed at that time.
- Royalties and advertising fees, which are based on a percent of the franchisees’ sales are recognized at the time the underlying sales occur. The Company has elected to use the right to invoice practical expedient for recognition of minimum royalties.
- Interest income on notes receivable, which is recognized based on the outstanding principal note balance unless it is put on non-accrual status. Interest income on notes receivable that are placed on a non-accrual basis is recognized when cash is received. Interest income on accounts receivable is recognized based on the outstanding receivable balance over 30 days old, net of an allowance.
- Gains on sales of Company-owned offices, which are recognized when cash is received. Losses on sales of Company-owned offices are recognized immediately.

The details of the significant changes in revenue recognition and quantitative impact of the changes are discussed below.

Initial Franchise Fees

Typically, franchise rights are granted to franchisees for an initial term of five years with an option to renew. In exchange for initial franchise fees, royalties and advertising fees, the Company is obligated by its franchise agreements to provide training, an operations manual, site selection guidance, tax preparation software, operational assistance, tax and technical support, the ability to perform electronic filing, and marketing and advertising. Under the previous revenue recognition guidance, revenues from initial franchise fees were recognized when the obligations of the Company to prepare the franchisee for operation were substantially complete, up to the amount of cash received.

Under the new guidance, the standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. The services that the Company provides related to the initial franchise fees the Company receives from franchisees do not contain separate and distinct performance obligations from the franchise right or a financing component. Accordingly, under the new standard, initial franchise fees, as constrained for amounts the Company does not expect to collect, will be recognized over the initial term of the franchise agreement, which is generally five years.

AD Fees

Historically, the rights to develop a new territory were granted to an AD for an initial term of generally six or ten years. Under the previous revenue recognition guidance, AD fees were recognized as revenue on a straight-line basis over the initial contract term of each AD agreement with the cumulative amount of revenue recognized not to exceed the amount of cash received. Under the new guidance, the standard requires the Company to recognize AD fees, as constrained for amounts not expected to be collected, over the initial term of the AD agreement.

The Company also sells a developed territory and simultaneously grants the right to operate as the exclusive AD in such developed territory to a new AD for an initial term of six years or ten years. Under the previous revenue recognition guidance, gains on sales of developed territories were recognized as revenues over the initial term, with the cumulative amount of revenues recognized not to exceed the amount of cash received. Losses on sales of developed territories were recognized immediately. Such gains and losses represented the difference between the transaction price and the net book value of the intangible asset recorded upon the Company's reacquisition of the developed territory as of the date of the sale. Under the new guidance, the transaction price, as constrained for amounts the Company does not expect to collect, is recognized as revenues over the initial term of the AD agreement. The net book value of the intangible asset is written-off to operating expenses at the date of the sale.

Electronic Filing Fees

Electronic filing fees are recorded in the period the tax return is electronically filed. Under the previous revenue recognition guidance, the electronic filing fees and the franchisees' share in such fees were recorded as revenues and expense in the consolidated income statement, respectively. Under the new guidance, the electronic filing fees, net of the franchisees' share in such fees, will be recorded as revenues in the consolidated statement of operations.

Transition Method

The Company applied the new guidance on all contracts that were not completed as of May 1, 2018 using the modified retrospective method, whereby the cumulative effect of initially adopting the guidance was recognized as an adjustment to the opening balance of retained earnings at May 1, 2018 in the amount of $3.8 million decrease, net of tax, with corresponding increases in deferred revenue and notes receivable . Therefore, the results of operations from the comparative period have not been adjusted and continue to be reported under the previous revenue recognition guidance.

Impacts on Condensed Consolidated Financial Statements

The following tables summarize the impacts of adopting ASC 606 on the Company's condensed consolidated financial statements as of and for the three months ended July 31, 2018:

Condensed Consolidated Balance Sheet	As Reported	ASC 606 Adjustment	Balances Without Adoption of ASC 606
	(In thousands)		
Notes receivable, current	$29,402	$ 985	$28,417
Allowance for doubtful accounts - current	(11,917)	161	(12,078)
Income taxes receivable	4,989	(321)	5,310
Notes receivable, non-current	9,882	421	9,461
Other intangible assets, net	22,765	(169)	22,934
Deferred income taxes	1,272	936	336
Total assets	159,760	2,011	157,749
Deferred revenue, current	4,018	2,163	1,855
Deferred revenue and other, non-current	7,870	3,418	4,452
Deferred income tax liability	919	(456)	1,375
Total liabilities	73,684	5,125	68,559
Retained earnings	75,706	(3,114)	78,820

Total stockholders' equity	86,076	(3,114)	89,190
Total liabilities and stockholders’ equity	$159,760	$ 2,011	$157,749

Condensed Consolidated Statement of Operations	As Reported	ASC 606 Adjustment	Balances Without Adoption of ASC 606
	(In thousands)		
Franchise fees	$557	$ 461	$96
Area Developer fees	1,028	422	606
Electronic filing fees	28	(112)	140
Other revenues	235	130	105
Total revenues	7,163	903	6,260
Selling, general, and administrative expenses	11,304	(111)	11,415
Total operating expenses	35,522	(112)	35,634
Loss from operations	(28,359)	1,015	(29,374)
Loss before income taxes	(28,887)	1,015	(29,902)
Income tax benefit	(9,516)	334	(9,850)
Net loss	$(19,371)	$ 681	$(20,052)

There have been no other significant changes in the Company's condensed consolidated balance sheets or statements of operations and cash flows as a result of the adoption of ASC 606.

Contract Balances

The following table provides information about receivables and contract liabilities (deferred revenue) from contracts with customers:

	July 31, 2018	April 30, 2018
	(In thousands)	
Notes receivable (1)	$39,284	$30,849
Deferred revenue (2)	10,938	5,667

(1) Notes receivable increased by $1.7 million as of May 1, 2018 due to the change in the Company's revenue recognition policy for initial franchise and AD fees upon adoption of ASC 606.

(2) Deferred revenue increased $6.9 million as of May 1, 2018 due to the cumulative effect of adopting ASC 606.

Significant changes in deferred franchise and AD fees are as follows:

	Three Months Ended July 31, 2018 (In thousands)
Deferred franchise and AD fees at beginning of period	$ 5,667
ASC 606 deferred franchise and AD fees adoption	6,940
Revenue recognized during the period	(1,584)

New deferrals (terminations) of franchise and AD fees	(85)
Deferred franchise and AD fees at end of period	$ 10,938

Anticipated Future Recognition of Deferred Franchise and AD Fees

The following table reflects the estimated franchise and AD fees expected to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

	Estimate for Fiscal Year (In thousands)
2019 (a)	$ 2,871
2020	3,392
2021	2,430
2022	1,401
2023	610
Thereafter	234
Total	$ 10,938

(1) Represents franchise and AD fees expected to be recognized for the remainder of fiscal 2019. The amount does not include $1.6 million of franchise and AD fee revenues recognized for the three months ended July 31, 2018.

The Company has applied the optional exemption, as provided for under ASC 606, which allows the Company not to disclose the transaction price allocated to unsatisfied performance obligations when the transaction price is a sales-based royalty.

Foreign Operations

Canadian operations contributed $0.8 million and $1.0 million in revenues for the three months ended July 31, 2018 and 2017, respectively.

The Company may have exposure to foreign currency fluctuations due to transactions between its U.S. and Canadian subsidiaries.

(2) Accounts and Notes Receivable

The Company provides select financing to ADs and franchisees for the purchase of franchises, areas, Company-owned offices, and operating loans for working capital and equipment needs. The franchise-related notes generally are payable over five years and the operating loans generally are due within one year. Most notes bear interest at an annual rate of 12%.

Most of the notes receivable are due from the Company's ADs and franchisees and are collateralized by the underlying franchise and, when the AD or franchise is an entity, are guaranteed by the owners of the respective entity. The debtors' ability to repay the notes is dependent upon both the performance of the tax preparation industry as a whole and the individual franchise or AD areas.

At July 31, 2018, the Company had unfunded lending commitments for working capital loans to franchisees and ADs of $17.4 million through the end of the current fiscal year.

Allowance for Doubtful Accounts
The adequacy of the allowance for doubtful accounts is assessed on a quarterly basis and adjusted as deemed necessary. Management believes the recorded allowance is adequate based upon its consideration of the estimated fair value of the franchises and AD areas collateralizing the receivables. Any adverse change in the tax preparation industry or the individual franchise or AD areas could affect the Company's estimate of the allowance.

12

Activity in the allowance for doubtful accounts for the three months ended July 31, 2018 and 2017 was as follows:

	Three Months Ended July 31,	
	2018	2017
	(In thousands)	
Balance at beginning of period	$12,487	$12,020
Provision for doubtful accounts	1,939	1,408
Write-offs	(840)	(2,950)
Foreign currency adjustment	(27)	147
Balance at end of period	$13,559	$10,625

Management considers specific accounts and notes receivable to be impaired if the net amounts due exceed the fair value of the underlying franchise at the time of the annual valuation performed as of April 30 of each year, and estimates an allowance for doubtful accounts based on that excess. In establishing the fair value of the underlying franchise, management considers a variety of factors, including recent sales between franchisees, sales of Company-owned stores, net fees of open offices earned during the most recently completed tax season, and the number of unopened offices. The Company performs its impairment analysis annually due to the seasonal nature of its operations. At the end of each fiscal quarter, the Company considers the activity during the period for accounts and notes receivable impaired at each prior fiscal year end and adjusts the allowance for doubtful accounts accordingly. While not specifically identifiable as of the balance sheet date, the Company's analysis of its experience also indicates that a portion of other accounts and notes receivable may not be collectible. Net amounts due include contractually obligated accounts and notes receivable plus accrued interest, reduced by unrecognized revenue, the allowance for uncollected interest, amounts due ADs, and amounts owed to the franchisee by the Company.

The allowance for doubtful accounts at July 31, 2018, April 30, 2018 and July 31, 2017, was allocated as follows:

	July 31, 2018	April 30, 2018	July 31, 2017
	(In thousands)		
Impaired:			
Notes and interest receivable, net of unrecognized revenue	$11,697	$11,654	$12,397
Accounts receivable	13,121	13,891	10,146
Less amounts due to ADs and franchisees	(1,687)	(1,907)	(1,312)
Amounts receivable less amounts due to ADs and franchisees	$23,131	$23,638	$21,231
Allowance for doubtful accounts for impaired notes and accounts receivable	$9,619	$10,322	$7,973
Non-impaired:			
Notes and interest receivable, net of unrecognized revenue	$29,610	$20,721	$41,852
Accounts receivable	28,103	38,626	33,079
Less amounts due to ADs and franchisees	(5,701)	(11,722)	(8,239)
Amounts receivable less amounts due to ADs and franchisees	$52,012	$47,625	$66,692
Allowance for doubtful accounts for non-impaired notes and accounts receivable	$3,940	$2,165	$2,652
Total:			
Notes and interest receivable, net of unrecognized revenue	$41,307	$32,375	$54,249
Accounts receivable	41,224	52,517	43,225
Less amounts due to ADs and franchisees	(7,388)	(13,629)	(9,551)
Amounts receivable less amounts due to ADs and franchisees	$75,143	$71,263	$87,923
Total allowance for doubtful accounts	$13,559	$12,487	$10,625

The Company’s average investment in impaired receivables during the three months ended July 31, 2018 and 2017 was $23.4 million and $22.7 million, respectively.

Analysis of Past Due Receivables

The breakdown of accounts and notes receivable past due at July 31, 2018 was as follows:

	Past due	Current	Interest receivable, net	Total receivables
	(In thousands)			
Accounts receivable	$36,310	$4,914	$ —	$ 41,224
Notes and interest receivable, net (1)	13,367	25,917	2,023	41,307
Total accounts, notes and interest receivable	$49,677	$30,831	$ 2,023	$ 82,531

(1) Interest receivable is shown net of an allowance for uncollectible interest of $2.8 million.

Accounts receivable are considered to be past due if unpaid 30 days after billing, and notes receivable are considered past due if unpaid 90 days after the due date. If it is determined the likelihood of collecting substantially all of the notes and accrued interest is not probable, the notes are put on non-accrual status. The Company’s investment in notes receivable on non-accrual status was $13.4 million, $13.6 million and $13.7 million at July 31, 2018, April 30, 2018, and July 31, 2017, respectively. Payments received on notes in non-accrual status are applied to the principal until the note is current and then to interest income. Non-accrual notes that are paid current and expected to remain current are moved back into accrual status during the next annual review.

(3) Restructuring Expense

In the three months ended October 31, 2017, the Company began restructuring initiatives involving a review of Company-owned stores and service providers to improve the Company's overall long-term profitability. The Company incurred $8.3 million of expenses in the three months ended July 31, 2018 related to these initiatives. The expenses incurred are presented in the Restructuring expense line item in the consolidated statements of income. The composition of the restructuring expenses incurred for the three months ended July 31, 2018 were as follows:

Expense	Cash	Accrued Expenses	Non-cash	Total Expense
	(In thousands)			
Property and intangible impairments and exit costs	193	3,859	4,214	8,266
Total	$193	$ 3,859	$ 4,214	$ 8,266

The property and intangible impairments and exit costs, which were primarily recorded in assets held for sale, were comprised of expenses related to lease obligations and non-cash charges associated with intangible write-downs. The accrued restructuring expenses of $2.7 million are included in "Accounts payable and accrued expenses" in the accompanying consolidated balance sheets.

A summary of the activity in accrued expenses related to restructuring initiatives for the three months ended July 31, 2018 is as follows:

	Contract termination costs - maintenance	Property and intangible impairments and exit costs	Total accrued expenses
	(In thousands)		
Balance at beginning of period	$1,359	$ —	$ 1,359
Additions accrued against the liability	—	3,859	3,859
Cash payments	—	—	—
Balance at end of period	$1,359	$ 3,859	$ 5,218

(4) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the three months ended July 31, 2018 and 2017 were as follows:

	July 31, 2018	July 31, 2017
	(In thousands)	
Balance at beginning of period	$8,640	$8,576

Acquisitions of assets from franchisees and others	—	22
Disposals and foreign currency changes, net	(643)	54
Purchase price reallocation	—	(1,032)
Balance at end of period	$7,997	$7,620

Components of intangible assets were as follows as of July 31, 2018, April 30, 2018 and July 31, 2017:

	July 31, 2018			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Customer lists acquired from unrelated third parties	5 years	$3,187	$ (1,700)	$1,487
Tradenames	3 years	539	(252)	287
Non-compete agreements	2 years	241	(175)	66
Assets acquired from franchisees:				
Customer lists	4 years	1,459	(1,220)	239
Reacquired rights	2 years	1,157	(1,122)	35
AD rights	9 years	32,002	(11,351)	20,651
Total intangible assets		$38,585	$ (15,820)	$22,765

	April 30, 2018			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Customer lists acquired from unrelated third parties	5 years	$3,187	$ (1,555)	$1,632
Tradenames	3 years	431	(172)	259
Non-compete agreements	2 years	241	(145)	96
Assets acquired from franchisees:				
Customer lists	4 years	1,842	(1,427)	415
Reacquired rights	2 years	1,436	(1,393)	43
AD rights	9 years	30,907	(10,515)	20,392
Total intangible assets		$38,044	$ (15,207)	$22,837

	July 31, 2017			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Customer lists acquired from unrelated third parties	5 years	$3,188	$ (1,058)	$2,130
Tradenames	3 years	431	(64)	367
Non-compete agreements	2 years	241	(55)	186
Assets acquired from franchisees:				
Customer lists	4 years	1,266	(1,000)	266
Reacquired rights	2 years	956	(934)	22
AD rights	10 years	27,072	(8,141)	18,931
Total intangible assets		$33,154	$ (11,252)	$21,902

The Company acquired $1.3 million and $0.6 million of AD rights during the three months ended July 31, 2018 and 2017, respectively.

During the three months ended July 31, 2018 and 2017, the Company did not acquire any assets of U.S. or Canadian franchisees, or third parties that were not classified as assets held for sale.

(5) Assets Held For Sale

At the end of the first quarter of fiscal 2019 and 2018, assets acquired from U.S. franchisees were classified as assets held for sale. During the three months ended July 31, 2018, the Company acquired less than $0.1 million in assets from U.S. franchisees and third parties that were first accounted for as business combinations, with the value allocated to customer lists and reacquired rights of less than $0.1 million and goodwill of less than $0.1 million prior to being recorded as assets held for sale. During the three months ended July 31, 2017, the Company acquired $3.0 million in assets from U.S. franchisees and third parties that were first accounted for as business combinations, with the value allocated to customer lists and reacquired rights of $1.5 million and goodwill of $1.5 million prior to being recorded as assets held for sale. The Company intends to sell the majority of assets associated with Company-owned offices within one year. The acquired businesses are operated as Company-owned offices until a buyer is located and a new franchise agreement is entered into. During the three months ended July 31, 2018, the Company sold, terminated, or impaired $3.7 million in assets from U.S. franchisees, of which $3.4 million was included in the Company's res